

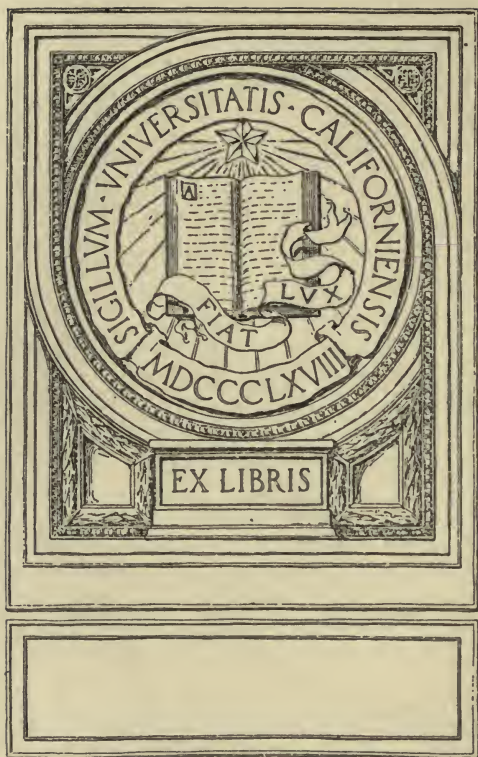
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IS GERMANY
PROSPEROUS?

PENSON



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IS GERMANY PROSPEROUS?

Impressions gained January 1922

BY

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PREFACE

THIS book is merely a record of facts and impressions collected during a short but somewhat strenuous visit to Germany in January 1922: it is not intended to be a treatise on the Reparations question. The views expressed in it are partly the results of personal observation and partly the outcome of discussion with people of knowledge and experience, whom I was fortunate enough to meet there, and who, in the most generous way, placed at my disposal everything they could that was likely to assist me in my search for accurate information as to Germany's economic conditions and prospects.

Of those who helped me in this way some were British officials in the Rhineland who had studied the problems on the spot and who had become thoroughly conversant with German economic affairs in general, and some were Germans—highly placed officials, industrial and financial magnates, statisticians, econo-

mists, professional and business men—who seemed to welcome the opportunity of discussing the economic position of their country and of putting forward certain aspects of it which they felt were hardly understood by people outside Germany. My numerous and persistent questions they answered fully and frankly and it was evident that they did so in the firm belief that everything was to be gained by making the facts about Germany's so-called prosperity as widely known as possible.

In thus putting down what I have seen and heard I do not make any claim to completeness or infallibility. The district which I visited, the Rhineland, is only a small portion of Germany and is by no means typical of the country as a whole, but those with whom I had such long and interesting talks were thoroughly acquainted with the whole country and were able to correct and enlarge my partial and imperfect impressions, and I should like to place on record my appreciation of their courtesy and my gratitude for the way in which they placed their time and their knowledge at my disposal.

When I left home I had no intention of writing a book. I went to learn, but when I found how far from the truth many of my

previously held opinions were, it seemed to me that there were many at home who were anxious to know the facts but had not the means of getting at them and would, therefore, be glad to share the opportunities I had of finding out what might reasonably be regarded as the facts of the case. The difficulty of judging between the very conflicting reports which correspondents and others were contributing to the daily Press was forcibly brought home to me one morning, two or three weeks before I left home, when in one paper I read of "the poor and impoverished German" and in another I found a graphic account of Germany's prosperity and of the profusion, extravagance and dissipation which marked the life in the bigger towns. The latter view was supported a little later by an article written from Berlin on New Year's Eve, of which the following sufficiently indicates the views of the writer: "Fortunes have been made and the revelry in Berlin to-night, when every theatre and every restaurant is crammed and champagne is being drunk like water, is proof that the pockets of many are well lined." And a little further on in the same article: "The nation has been waxing rich during the past year, while the

Government remains poor and pleads its inability to pay Germany's debts to the Allies." When statements of such a contradictory character are being made, one is very naturally driven to ask, "Is Germany really prosperous?" and "Is it possible to get at the real facts of the situation?"

This then was my quest, a rather rash undertaking, perhaps, with so little time at my disposal, but my inquiries were of a somewhat intensive character and the limited amount of ground covered may possibly be regarded as compensated for by the high standing and varied experience of those who supplied the information and who discussed with me in such detail the various problems in which I was interested.

The towns I visited were Coblenz, Wiesbaden, Mainz, Frankfurt and Cologne, places very different in character, but having many common features of interest. It was specially interesting to note the effects on the life of the inhabitants generally of the Armies of Occupation in their respective districts, in Coblenz under the Americans, in Mainz under the French and in Cologne under the British.

Lest some should think that I simply accepted what the Germans chose to tell me

and allowed my opinion to be unduly influenced by them, it seems desirable for me to explain my method of inquiry and this I can best do by giving an actual example. After receiving from a British expert at Coblenz his views on the industrial situation, I went to one of the foremost of German business men in Frankfurt and asked him for his views. These he gave me quite without reserve, recommending me to go on to a leading statistician for corroboration in matters of detail. This I did and then submitted the results of both interviews to another British official, who had made a special study of this matter. For the most part, there was almost complete agreement between the various accounts given me and in such cases I have not hesitated to treat them as statements of fact, while in the case of isolated or unsupported information I have stated in the text the authority on which it is given. I hope then that I may fairly claim to have been impartial and unbiased and I trust the reader will accept what I have written as, at any rate, an honest attempt to shed light on a dark and difficult question.

T. H. P.

OXFORD, *February*, 1922.

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IS GERMANY PROSPEROUS ?

CHAPTER I

INTRODUCTION

THE question which forms the title of this book, " Is Germany Prosperous ? " is one which a great many people are asking at the present day, but they are finding it very difficult to obtain a clear and definite answer to it. That the question should be asked is probably not due to any special interest they may take in Germany or the German people, but to the fact that it is a necessary preliminary to two other questions which are of immediate and absorbing interest at the present moment, viz. :—

(1) Can Germany pay ?

(2) When will the economic life of the world resume its normal course ?

The first of these questions is perhaps more intimately connected with the second

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than at first sight one may be inclined to realize. Let us look into it a little more closely. The question " Can Germany pay ? " may be well split up into three parts :—

- (a) Has Germany the means of paying the Reparation instalments now due ?
- (b) Is German industrial life progressing on lines which will enable her in the future to meet further payments as they fall due ?
- (c) What will be the effect of these payments on Germany's industrial development, on the countries receiving the payments, on the economic prosperity of the world as a whole ?

It is in the last of these divisions of question (1) that we see the close relation that exists between questions (1) and (2), a relation which has attracted much attention of late and the importance of which is considered by many a sufficient justification for the reopening and the reconsideration of the whole Reparations question.

The long-continued period of trade depression, the unprecedented amount of unemployment have drawn public attention to the fact that there is a very direct connexion between the disastrous economic conditions

prevailing in this and other countries and the general conditions of world trade, upon which the long delay in arriving at a final settlement with our former enemies has had and is still having a very unfortunate effect.

The economic machine has, so to speak, broken down. The connecting links between the producer and the consumer, between the suppliers of raw material and those who employ it in manufactures, between buyers and sellers in all parts of the world, were in many cases snapped or, at any rate, severely strained in the course of the Great War, and have not by any means been fully replaced. Some of the more important parts of the machine, such as Germany, Austria and Russia, dropped out altogether, and have not yet been restored to their former position. The financial system which kept the machine running was disorganized, and since the war has not regained its driving force, owing to the chaotic condition of the Exchanges, to the vast issues of paper money and to the general lack of confidence. Scheme after scheme has been proposed and some of them have been actually put into operation with a view to rebuilding and restoring this economic machine, but with such conspicuous

want of success that the economic position generally can hardly be worse. When, therefore, we approach such questions as those propounded above we are forced, in spite perhaps of prejudices or bitterness of feeling, or even of a deep sense of injury, to look no longer upon the world as divided into two main groups with conflicting interests, but to realize that the world is a great economic society in which the weakness of one member affects the health and prosperity of all.

From what has been said it is very evident that the questions of Reparations and of trade revival are bound up very closely with that of Germany's economic condition and that the policy which is followed with regard to the first of these has a very direct bearing on the realization of the second. No attempt is made in this book to suggest what the policy should be, all that is desired is to give such particulars about German conditions as may enable the general reader to judge for himself the wisdom or unwisdom of any proposals that may already have been made or may be made in the immediate future.

Is Germany prosperous ? Many have asked me this question since my return as if it were one to which a simple answer, " Yes " or " No,"

could at once be given. This it is quite impossible to do. The whole subject is such a complicated one, so full of contradictions and of conflicting ideas that the only possible form of answer is a reasoned statement, setting out the ascertainable facts and suggesting the conclusions which may be drawn from a careful and unprejudiced consideration of them.

At the very outset of one's attempt to investigate the economic position of Germany one is staggered by the apparent absurdity of the results first obtained. The whole thing seems such an amazing paradox, or rather, succession of paradoxes. The trader sells his goods for more than they cost him and loses by the transaction, the manufacturer has a record year for sales and prices and finds himself worse off at the end of it, all are fully and continually employed and yet the standard of living of the majority is low, there is a great output of wealth and yet there seems to be no surplus, taxes are high and yet the Exchequer is empty. From an economic point of view one almost gets the impression of a world turned upside down.

As we continue with our investigation, however, and go a little deeper into things,

we seem to get distinctly more light on the subject and there appears after all to be some method in this madness. The cause of all the confusion is to be found in the mark. The mark is not the same to-day as it was yesterday, nor is it the same outside Germany as it is within. Things are bought in a mark that has one value and sold in a mark which has another and probably lower one. The mark spent in Germany has one purchasing power, the mark spent abroad, say, in England after it has been changed into English money, has another and also lower one. Yet it is called a mark under all these circumstances and the trader's books are entered up, and the company's balance sheet is made out just as if marks were always marks and all marks of equal value.

The connecting link between Germany's wealth and the meeting of Germany's external obligations is, of course, the German Government. Whether the Reparations are made in cash or in kind, it is from the German Exchequer that they must in reality come. But between Reparation in cash and Reparation in kind there is a great and important distinction: the one involves an external payment, the other an internal payment, and with the

present great difference there is between the external and internal values of the mark, this distinction has a very special significance.

What the German Government pays out internally or externally—that is, of course, such part of it as is not obtained from a raid upon bullion reserves, from loans or from the issue of new paper money, all three of which mean the laying up of trouble for the future—is drawn from the pockets of the tax-payers. Taxation, it is generally admitted, presupposes a surplus of wealth over what is required for the satisfaction of immediate and more pressing needs, whether for maintenance of the standard of living or for the efficient conduct of industry. But at what point does surplus begin? On this there may well be, as in fact there undoubtedly is, some difference of opinion. So far as the German Government is concerned, it would seem from the very heavy burden of taxation it has imposed, that it has pushed its demands pretty nearly up to the margin of taxable capacity. But to make Reparation payments something more is needed than the levying of taxes or even an efficient system of collection, and that is, the State must be able to show a surplus of revenue over expenditure.

So far, it has not been able to do this, though from the latest accounts it seems to be making a very strenuous attempt in this direction. Judging by its recent actions, there would appear to be a genuine desire on the part of the German Government to meet its obligations, in spite of the difficulty it experiences in finding the means of doing so, and one would be inclined to suggest that the accusation of bad faith without any supporting evidence is hardly likely to be helpful in the present very critical situation.

This general survey of the position has, I think, sufficiently indicated what is to be the main subject of our inquiry. Germany is stated to be prosperous.—Is that in accordance with the facts? She is said to be escaping the heavy burden of taxation which rests on other countries.—In what way is she taxed and to what extent?

The answers to these questions, based on careful personal investigation, form the subject-matter of the following pages.

CHAPTER II

FIRST IMPRESSIONS

THE traveller whose last visit to Germany was in 1913 or the early part of 1914 would undoubtedly be struck, even on a very superficial glance, by many signs of change. The first difference perhaps that he would notice on entering the country would be in the attitude of the Railway and Customs Officials. It may be that the fact that their uniforms are not so smart and new as they used to look has something to do with the absence of that old domineering manner which one used to find so trying. The Railway official, in the Rhineland at least, for that is as far as my personal experience goes, is polite and helpful, and even looks, at times, as if he wanted to be friendly. In Post Offices too I noticed just the same thing and one got a general feeling that so far as the official world was concerned matters were

on a much more human footing. Other aspects of travel are also very different. One remembers the comfortable, well-equipped carriages of the "D Train," with their solid and somewhat pretentious fittings. To-day the carriages give one a very different impression. They are for the most part shabby and in need of a thorough doing up, the window strap is often only a frayed piece of webbing and is not infrequently missing altogether ; the brass fittings, removed no doubt to supply military necessities, have been in many cases replaced by painted iron ones. Trains too are less frequent and less punctual than of old and journeys generally take a much longer time. This is said to be attributable to shortage or inferiority of coal, but labour difficulties have also something to do with it. One reason given me for the slowness of the trains was the poor condition of the locomotives. Just as in the case of the carriage fittings, various parts of the engines were removed for war purposes and have been replaced by inferior metal which would not stand the strain of a really high speed.

With regard to one's fellow-travellers, one could not help noticing a change which made a somewhat painful impression. A great

many people that one would in former days have expected to see travelling first or second class were now travelling fourth, and a fourth-class carriage means a great deal of personal discomfort, especially to delicate and sensitive people, for the carriages are badly lighted and resemble a luggage van with a wooden seat round the sides. When the train is full the greater number have to stand and this, on a long journey, must be a very trying experience. It is hardly necessary to say that for the third- and fourth-class passengers there is no restaurant car and that the passengers come provided with their own refreshment, generally of a very simple type. With the exception of trans-continental trains, very few first- and second-class compartments are provided and those using them would probably be large land-owners, well-to-do farmers or business men, the so-called profiteers, Allied officers and hosts of foreigners, chiefly from the neutral countries, who have been attracted to Germany by the "Valuta."

When I got back I found a general curiosity to know how the German people I met treated me and what was their general bearing in conversation, etc. In answer to this I should say that our intercourse was always of a most

natural description, I could detect no appearance of their not being perfectly at ease with me, there were no awkward pauses and no signs of constraint, they seemed to take it for granted that we were both regarding the war from a purely objective point of view, that we had supported different sides and that we should consequently be likely to view things very differently, but that we as individuals had taken a part in a struggle of life and death did not seem to occur to them and I must confess that I myself found this objective attitude the easy one to assume. If one went into a shop one was a welcome customer, and more than once the assistants quite astonished me by the apparent interest they took in the satisfaction of my simple wants. In railway carriages, too, and in the theatre, those who sat near one were courteous and ready to share time-table or programme ; even children entered into conversation and liked to show their little knowledge of English which they told us they had learnt at school. The hotel servants were always ready to oblige, though I seemed to detect a want of animation in their services and an absence of alacrity in waiting on us, which might perhaps have been due to a

certain indifference, a lingering trace of the war weariness, or to the abolition of tips, which has now become a fairly general custom in Germany. Whatever may have been the cause, I do not think it arose out of any feeling of personal hostility, because I did not see any signs of the Germans, Swiss, Scandinavians or Dutch being better waited on than ourselves.

It was very usual before the war to accuse the German people as a whole of inability to understand the psychology of other nations and evidence of this did not seem to have been wanting, but I think it may be said of English people at the present day that they in their turn do not altogether understand what the German mentality is. The state of mind of the ordinary German seems to be so different from what ours would have been if we had been in the position of the conquered party that we do not readily grasp, what I believe to be an undoubted fact, that the friendly, disinterested, helpful way in which Germans meet English people has no selfish motive behind it. They feel well disposed towards one and they show it. Amongst the military and Junker classes, no doubt, a considerable amount of bitterness exists, but of them I cannot speak personally,

as I did not come into contact with any who might be regarded as typical of them.

The curiosity, which in older days the Germans used to show as to one's clothes, one's position in life and even one's age, was wanting and one certainly did not miss it. They seemed to take the stranger more for granted and this suggested a certain numbness and passivity which used to be very foreign to their nature.

Their love for work which, as a race, has characterized them almost since the days of the Romans they still possess and even to an enhanced degree. They rise early and every minute of the day is occupied with the business of life or with household or family duties.¹ "Arbeit ist Freude" can still be taken as the national motto. National efficiency is, consciously or unconsciously, their one remaining ideal. One often hears from workingmen the emphatic assertion, "Das deutsche Volk will arbeiten." This love of work still exists and probably always will exist and in all estimates of German capacity and productivity it has to be taken into account. To

¹ The midday rest still remains a very general institution, in many places the shops and offices being shut between 1 and 3.

this also should be added the German quality of thoroughness, which is a national characteristic and is observable in everything they take up.

Turning to more outward appearances, the women of the professional and upper-middle classes, the backbone of the country, are dressed for the most part like better working-class people at home. Their husbands perhaps have a smarter air because of their short tight-fitting overcoats surmounted by a deep collar of fur, which, however, is no new purchase and no sign of prosperity, the coat with its fur lining and fur collar being part of the old military uniform dyed to give it a civilian appearance. A somewhat diminutive soft felt hat of inexpensive make completes the costume and the silhouette is a little odd to unaccustomed eyes. The same practical common sense which is noticeable in the way they run their households distinguishes the dress of the women-folk. Their outer garments are, as a rule, plain and warm, clothes are evidently regarded as an investment, as something which when bought has to last for a long time. Speaking generally, in matters of dress one seems to come across the two extremes and to see very little between ;

the smartness of the foreigner and the profiteer on the one hand and the homeliness of the people generally on the other.

It has frequently been said that Germany since the war has shown very evident signs of moral degeneration. Of this I must frankly say I saw absolutely nothing, but then, as I have already said, I visited only one part of Germany and that a comparatively small one. The pieces produced at the theatres were, for the most part, old classical favourites, the films shown at the cinemas were exceedingly good in quality as well as in tone, in the bookshops religious literature was very prominent, evangelical as well as catholic, and books on philosophy, music and art were evidently much in demand. The general impression given was that people were taking life seriously and that there was nothing boisterous or coarse even about their amusements. Berlin, doubtless, is not very different from Paris and other big cities, but I am convinced that it would be a very unsafe generalization to suggest that because the less reputable places of entertainment and refreshment in Berlin are nightly crowded this in any way represents the moral standards of the people generally.

The towns visited gave one an impression of active business and social life. The streets were full of people and the shops had plenty of customers. All betokened an economic life in which all were occupied and in which the interchange of goods and services was going actively on. No one seemed unemployed or idle, no one seemed to be ragged or inadequately clothed. Whether the prosperity thus indicated should be regarded as more apparent than real will be discussed in a later chapter, but the general impression left on one's mind was certainly that of a thriving community of moderately well-to-do people, though here again I must repeat the caution already given, namely, that my personal observation was confined to the Rhineland, and my remarks of this kind must be taken as applying more particularly to that district.

Owing to the Armies of Occupation, economic life in the Rhineland suffered less than in other parts of Germany from the political upheaval and the constitutional changes which followed the war. The presence of these armies, especially in Coblenz and Cologne, has been distinctly "good for trade." In Coblenz, where the Americans have their

head-quarters, trade is specially brisk. The American soldier is well paid and his dollars converted into marks have considerable purchasing power, he is as a rule generous and open-handed and he has become very popular in the neighbourhood. I have even heard more than one German say that there would be a kind of general mourning when the troops were withdrawn! In this connexion it is worth mentioning that the pay of the American troops in Germany does not form part of the costs of the Occupation charged to the German Government. The Americans, not having ratified the Peace of Versailles, were not affected by the clause¹ which provided for the payment of all charges incurred under this heading.

The British occupation of Cologne is far less obtrusive than that of the Americans in Coblenz, but it is none the less effective. It is a guarantee of order and of equitable relations between the German inhabitants and the British troops quartered amongst them. The French have their zone of occupation farther south, with their head-quarters at Mainz, but in the district occupied by them they seem to take up an entirely different

¹Treaty of Peace, Article 249.

attitude towards the native population and to follow in their occupation a different policy and a different plan from the other Allies. I do not wish to draw any comparisons here, but as I am recording the general impressions left on my mind by my visit to these different places I ought perhaps to mention that the goodwill so noticeable in Coblenz and Cologne was distinctly wanting in Mainz. This absence of goodwill should not be regarded as arising from the feuds between France and Germany, which have been going on for so many centuries, but rather from the way in which the French administer the territory they occupy.

It is common knowledge that during the first few months of the Occupation the feeling towards the French was of quite a friendly nature, but the indignity of having coloured troops quartered amongst them and the harshness generally of the French régime have caused a good deal of irritation and have aroused throughout Germany a sense of injury and humiliation. I do not say this by way of criticism, but only because it seems necessary to point out that the French occupation does differ from that of the other Allies, and that the general conditions of life in their

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districts are consequently different in some respects from those in the other parts of the country I visited.

CHAPTER III

THE INTERNAL AND EXTERNAL VALUES OF THE MARK

ANY examination of Germany's economic condition involves the necessity of being able to express the German money values in terms of our own currency. Before the war this was a very simple matter. The relation between the two currencies varied so little from time to time that for less exact calculations it was regarded almost as a fixed quantity. The Par of Exchange, as it is called, was 20.43 marks to the pound sterling, or roughly speaking, a mark was equivalent to a shilling. The war has brought about a violent disturbance of the financial relations between the various countries of the world and the rates of exchange have fluctuated wildly. For example, on January 1, 1920, the rate of exchange between London and Berlin was 188 marks to the pound, but by January, 1921, it had moved to 260, and

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on the 2nd January, 1922, it was about 750, having in the meantime fallen so low as 1,245 marks to the pound. It is very evident, therefore, that, if at these different dates we had attempted to turn a certain number of marks into English money, the result would have been very different on each occasion. For example, in the case of a person with a fixed annual income of 50,000 marks, if we were desirous of expressing it at each of these dates in English money at the current rate of Exchange, we should say that :

On January 1, 1920, it was equivalent to £266

On January 1, 1921, „ „ „ „ £192

On January 2, 1922, „ „ „ „ £66

and when the Exchange stood at 1,245 to the pound it was only equivalent to £40.

It can be easily understood that prices in Germany did not alter in correspondence with these rapid changes in what we may call the external value of the mark, though for various reasons, especially the enormous issues of new paper money, prices in Germany were rising throughout the whole of this period and the purchasing power of the mark in Germany, or what we may call its internal value, was accordingly diminishing. It is

evident, therefore, that, as the irregular movements of the rates of exchange and of the general price level in Germany do not coincide in time or in extent, there is a difference varying from time to time and sometimes even from day to day between the internal and external values of the mark.

But, for the most part, very little attention is paid to this difference and hence we not infrequently come across statements in the Press which, though not intentionally misleading, give us a very wrong impression of what German conditions really are. To take a recent example of this. An article appeared in a leading daily paper, dealing with certain proposed reductions in the German Income Tax, citing the case of a man with an income of 50,000 marks, the tax on which it was stated it was proposed to reduce from 22 per cent. to 10 per cent. It was pointed out in the article that an income of 50,000 marks would, at the Par of Exchange, represent about £2,500 in English money. This was warmly taken up in a well-known weekly journal, which pointed out that 50,000 marks on the day the article appeared was only equivalent to an income of £66 a year. The original article, by converting the marks

into pounds sterling at the pre-war rate of Exchange did not help the reader in any way to appreciate what an income of that size meant at the present day, but the critic also failed to do so, inasmuch as he gave no indication of the difference between the internal and external values of the mark. Money is only a medium of exchange and the size of an income is really determined by what can be obtained for it in the form of goods and services. Assuming that the German with his 50,000 marks a year spends his income in Germany, the size of that income does not depend on what marks will exchange for in London (that is to say the external value) but on what it will purchase in Germany (the internal value), and these two values are under present circumstances by no means the same. The one writer fails to impress on us the difference between the mark then and the mark now, the other overlooks the difference between the mark in Germany and the mark in England.

What is needed then, is some sort of key number which would represent the ratio of the two values to one another. If, for example, the purchasing power of the mark

in Germany could at any given time be said to be three times its purchasing power in England, assuming it to have been exchanged for English money, our key number would be three and if the critic referred to above had gone on to say that though, according to the current rate of exchange (the external value) the income of 50,000 marks was only equivalent to £66 English money, yet the mark being worth three times as much in Germany as in England, we must multiply that 66 by 3 in order to get the corresponding income which an Englishman would require to maintain the same, or at any rate a similar, standard of living. The great difficulty is, of course, that this key number is so inconstant. Every alteration in the rate of exchange and every change in the price level in Germany upsets it, and such changes are occurring every day. The cost of living, besides, is not the same all over Germany. In one place the cost of living is much higher than in another and hence, all one can do is to give some very rough approximation. Statistics show that the cost of living is not subject to such violent changes as the rates of exchange, and that for some time past it has been moving

in one direction only, namely upwards, while the exchanges have moved violently at one time up and another time down. Over a short period then one would not go very far wrong if one were to regard the internal value as stationary, in which case the movements of the exchanges would sufficiently indicate changes in the difference between the internal and external values. This was certainly so during the time that the present writer was recently in Germany. During those weeks the exchanges fluctuated between about 700 and 800 marks to the pound and there was no noticeable alteration in prices generally. Hence, if it could have been said on the day of his arrival that the exchange was 720 marks to the pound (i.e. about 36 times the normal) and that with those 720 marks he could have purchased three times as much as with his £1 in England, then the internal value of the mark at that time could be represented by $\frac{720}{3}$ or 240. Assuming then that during the period under consideration the internal value of the mark remained at this figure while the external value varied between 700 and 800, the variations in the key number would have been between $2\frac{1}{2}$ and $3\frac{1}{3}$, as is shown in the following table :—

External value marks to the £1	Internal value of mark	Key No.
700 = (35 times pre-war)	240	$2\frac{1}{2}$
720 = (36 " ")	240	3
760 = (38 " ")	240	$3\frac{1}{6}$
800 = (40 " ")	240	$3\frac{1}{3}$

In the foregoing argument the number 3 was merely an assumption. We must now see how this key number (i.e. the number which expresses the ratio of the internal value of the mark to the external, and is obtained by dividing the former into the latter) is really arrived at. The external value can be seen in any daily paper, but the internal value is much more difficult to discover. In the first place, as already said, the internal value of the mark is its purchasing power within the country, and depends therefore on the general price level. But the general price level is usually expressed as a percentage of the pre-war level, which is for such purposes regarded as 100. This index number, however, would not give us the internal value of the mark and for this reason. What we want to ascertain is the relation between the value of a mark when used to

make purchases in Germany and the value of a mark when used for making purchases, say, in England. It is not sufficient, therefore, to take into consideration the number of times the prices have increased in Germany since 1913, but we must also bear in mind the alteration in prices in England during the same period. Neither of these figures can be given with any exactitude, for one reason because the general index number officially given does not always correspond very exactly with the actual cost of living, and for another, because index numbers are only published periodically, while prices may vary much more frequently. Some responsible statisticians have given the increase of the cost of living in Germany as being from 20 to 25 times the pre-war figure, and typical householders, when asked for their opinion, said that their experience was that their living expenses were increased about 20 times. On the other hand, in England it is generally considered that the cost of living is practically double what it was in 1913. Taking these two estimates together we arrive at the following conclusion. Since prices in Germany have advanced 20 to 24 times while in England they are only double, Germany

would appear to be 10 or 12 times more expensive to live in than England.¹ But the English pound will purchase, say, 720 marks instead of a little more than 20, or about 36 times what it did before the war. We have now got the two figures we require and if we divide the 36 by 10 or 12 as has been suggested, we get the key number a little more than 3 and that this number is approximately correct is borne out by the writer's own experience, as will be seen from the list of prices given in the following chapter.

From what has been said it is evident that the fixing of a key number is an extremely arbitrary thing, as it is based on figures which are in any case difficult to obtain with accuracy and which are liable to alteration from day to day. No business man or statistician in Germany, when asked for his view as to what the difference between

¹ In the argument above it has been assumed that the level of prices was the same in both countries before the War, which was certainly not altogether the case. But as at that time the internal and external values of both pound and mark may be regarded as having been identical, the nearest approximation to accuracy is obtained by referring the present price level in both countries to the pre-war standards.

the internal and external values really was, seemed willing to commit himself to any definite figure, but those to whom the above calculation was submitted said that it might be regarded as substantially correct.

In spite of the fact that there is no accepted figure which may be taken as representing the relation for the time being between the internal and external values of the mark, the difference between these two values is constantly being referred to in connexion with both the Reparation payments due from Germany to the Allied Powers and the conditions under which Germany's import and export trade is being carried on. But very little reference, if any, seems to be made to this difference when it is a question of comparing payments made in Germany with those made in the Allied countries. For instance, in an official Report issued by the French Foreign Office, tables are given showing what is paid in taxation per head in Germany and in France and the prices of certain commodities, such as bread and coal, in the two countries. The respective amounts of marks and francs are reduced to a common demoninator, namely the dollar, exchange being reckoned at the average rate

in New York for the month of September, 1921, so that comparison would appear at first sight to be both simple and impartial. The figures are as follows :—

Taxation per head.

Germany :—13 dols. 88 cents.

France :— 45 „ 32 „

¹ *Prices.*

Germany :—1 kg. bread costs 3·5 cents.

France :— „ „ „ 8·22 „

Germany :—1 ton of coal costs 2 dols. 5 cents.

France :— „ „ „ 9 „ 56 „

It is evident that these figures are based on the external value of the mark and the franc at the given date but, so far as Germany is concerned at any rate, the internal value would probably have been appreciably greater than the external, though perhaps not so much so as at the present time. If, therefore, we wish to have an absolutely just comparison we should need to have before us the comparative values internally and externally of both mark and franc.

With regard to foreign trade, the great difference between the two values of the

¹ It should be noted that the prices of bread and coal in Germany are both controlled, the Government paying large subsidies to enable these commodities to be sold below cost.

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mark gives rise to very peculiar and unhealthy conditions. As regards imports, Germany must pay for these in marks taken at their external value, and as these imports include a great deal in the way of food-stuffs as well as the raw materials for many of her industries, it is evident that the cost of living is rendered very high and the costs of production abnormally large. As regards exported goods the prices of which are based on the internal value of the mark, Germany has a great competitive advantage over producers in countries with more favourable exchange. The difference between the two values provides a wide margin within which her export prices can be fixed and in this way she secures many orders and keeps her factories going and her workers fully employed, but, on the whole, the depreciated value of the mark externally is really unfavourable to the country in general because, if it is to balance its accounts, it must part with a vastly greater amount of material wealth in proportion than it receives back in the form of food and raw materials.

CHAPTER IV

PRICES IN GERMANY

HAVING now established some basis of comparison between the internal and external values of the mark, it becomes much easier to make intelligible the conditions of life in Germany generally, for if we were merely to convert prices and wages into English money by calculating the number of marks to the pound according to the current rate of Exchange, we could form very little idea of what things really cost in Germany and what standard of living a given income could maintain. As was explained in the foregoing chapter the key number is an extremely variable thing, but as I am only giving the prices and conditions as I found them in January, 1922, when, so far as I could ascertain, the key number was approximately *three*, I propose in the comparisons which I am about to make in the following

chapter to take this number as a kind of standard.

This part of our subject can conveniently be dealt with under three heads :—

(1) PRICES.

(2) INCOMES.

(3) THE STANDARD OF LIVING.

To begin with prices. The first thing that strikes the traveller who has just changed his English money into German at the rate of 750 marks to the pound is that everything in Germany is extremely cheap. He sees something in a shop window, for which he would ordinarily pay about 10s. in England, marked 100 marks, which by a fairly easy mental process he discovers represents about 2s. 9d. in English currency, and very frequently, after a short period of shop-window gazing in the main streets of the town in which he happens to be, he develops what is locally known as "the mark fever." When everything is so cheap he wants to buy everything he sees: he will never, he feels, get such an opportunity again. But the visitor only reckons according to the external value of the mark, to him these things are ridiculously cheap, but are they so to the German resident? By no means. The

German compares the price he has now to pay with what it was perhaps a few months or even a year or two ago and he dolefully reflects that his income is not increasing at the same rate and that its purchasing power is rapidly diminishing. To him the mark has only one value, namely the internal. He does not want to buy pounds sterling, though the rate of Exchange will affect the prices of some things he buys, but he wants to obtain the goods and services which bring about the satisfaction of his daily wants. To him the value of the mark is its purchasing power and it is with this he is mainly concerned. It is only when we begin to turn German prices into English money that the necessity of establishing a relation between the two values of the mark arises. The values, therefore, which are given in this chapter in English money¹ should be multiplied by three in order to get a more correct idea as to the real cost to the German buyer. If, for example, a certain article costs 14 marks, equivalent in English money to $4\frac{1}{2}d.$, this represents one hour's wage for a skilled artisan. The corresponding sum in

¹ The English equivalent at 720 marks to the £1 is given in brackets after the German price.

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English money for that one hour's work is certainly not less than three times the $4\frac{1}{2}d.$ It may, therefore, very fairly be said that the article in question cost the German workman an equivalent of three times the amount indicated by the external value of the mark.

Some idea of current prices in Germany can be obtained by considering in the first place what the traveller pays for travelling, hotels, etc.

A second class ticket from Cologne to Wiesbaden—a distance of 185 kilometres (so few travel first class, that the second class fare is quoted as being more typical) cost 80 marks (2s. 2*d.*) and from Wiesbaden to Frankfurt—a distance of 35 kilometres 19 marks (6*d.*)¹ A taxi, with luggage from the station to the hotel (a good mile) cost me 45 marks (1s. 3*d.*) and this seemed to be the usual tariff. The tram fare for shorter distances was 1.50 marks ($\frac{1}{2}d.$) and for longer distances, 2 marks, or $\frac{1}{6}$ of a penny more. The hotel proprietor gave me his pre-war tariff which showed that the daily “en pension” charge is now about twenty times what it was formerly. Taking separately the two main items of room and

¹ From February 1, 1922, all fares have been increased by 75 per cent.

meals, the room now costs about forty times as much as it did. In a first-class hotel in Cologne or Wiesbaden, for example, a single room on the first floor costs about 200 marks (5s. 6*d.*) as against 5 marks formerly charged ; while the charge for breakfast is about 20 marks (6½*d.*) and for table d'hôte lunch and dinner 60 marks (1s. 7*d.*) each, as against the pre-war charges of 2, 4 and 5 marks respectively, which for the 3 meals taken together represents an increase of about 12 times. To one's total bill is now generally added a charge of 20 per cent. for service, and this is supposed to take the place of tips. Of this 20 per cent. 17 per cent. goes to the hotel proprietor to recoup him for the higher wages he is paying and 3 per cent. is divided according to scale amongst the whole staff as a sort of bonus. As one hotel proprietor said to me : " It gives the staff an interest in the business and makes them feel that they benefit by the popularity and success of the hotel." Meals in restaurants naturally vary very much in cost. In those which cater for the business and professional classes the charges are very moderate, as the following menus will show. Lunch :—clear soup, stewed beef and two vegetables, 20 marks (6½*d.*), with fish added,

32 marks (10*d.*), coffee 6 marks (2*d.*) a large mug of beer 3.50 marks (1*d.*). At another restaurant of the same type a regular four-course dinner of soup, fish, meat and sweet was served for 30 marks (10*d.*)

Wine is exceedingly cheap. German wines can be bought in the shops from about 12 marks (4*d.*) a bottle, and claret from about 25 marks (8*d.*) a bottle, while German champagnes range from 70 marks (2*s.*) upwards. Brandy is particularly cheap. Henessey's Three-Star cost 200 marks (5*s.* 6*d.*) and the best quality German brandy, 100 marks (2*s.* 9*d.*) In the hotels and restaurants higher prices are, of course, charged, but an excellent bottle of Rhine wine can be had for 60 marks (1*s.* 8*d.*) and liqueurs only cost 10 to 20 marks (3*d.* to 6*d.*) according to kind.

So much has been said about the cheap German posts that the current rates are worth quoting :—Inland post is 2 marks (two-thirds of 1*d.*). Foreign post, 4 marks (1½*d.*) These rates are, roughly speaking, three times what they were before January 1, 1922.

The theatre is, for the English visitor, a very inexpensive luxury. There are various scales of prices, the Opera costs more than the dramatic theatre, while on certain days

of the week in both places of amusement a lower scale of charges is in operation. Seats for matinées, too, are very much less than for evening performances. The following extracts from theatre programmes will give a fair idea of the prices ruling in Cologne :—

	Evening.	Matinée.
<i>Opera :—</i>		
Dress Circle . . .	62-85 M. (1/8-2/4)	19 M. (6d.)
Stalls (1st 5 rows)	45-67 M. (1/3-1/10)	13 M. (4d.)
Gallery (1st 4 rows)	6.50-9 M. (2d.-3d.)	4 M. (1½d.)
<i>Theatre :—</i>		
Dress Circle . . .	22-35 M. (7d.-1/-)	10 M. (3½d.)
Stalls (1st 5 rows)	18-26 M. (6d.-8d.)	8.50 M. (3d.)
Gallery . . .	3.50-4.50 (1d.-1½d.)	2 M. (¾d.)

In cinemas where the better seats were soft and there was an orchestra, prices were from 3 to 10 marks (1d. to 3d.), while in those where all the seats were hard and there was only a piano, prices were from 1.50 to 7 marks (½d. to 2d.)

Of the cost of living in general it is very difficult to give any exact idea, as prices vary a good deal from place to place and from day to day. One thing that struck me very much at first, and which has an interesting

explanation, is that in two shop windows not very far from one another, you may see some manufactured article, apparently exactly the same thing, marked at very different prices, and even in the same shop you may find two similar things differently priced. The explanation, is this :—in order to prevent profiteering, which very easily happens when stocks are short and threaten to run out altogether, as has frequently been the case in the last few years, the German Government introduced a law fixing the amount of gross profit which any retailer might charge on the goods he offered for sale. With wholesale prices continually rising, it stands to reason that goods taken into stock at an earlier date would be lower priced than those introduced at a later, and, consequently, whenever there has been any great rush to buy and stocks have been cleared out quickly, a very considerable rise in prices all round has been known to occur in a comparatively few days. This law, though passed with the best intentions, has been very severely criticized, for as every time the retailer has to replenish his stock he has to pay more for the goods he buys, and consequently what he has received for the old stock is not enough to

buy a corresponding amount of new. Hence, he must either buy less and see his business dwindle, or take up a loan with the Bank. His position when prices fall, as some day, it is almost certain that they will, is likely to be a very difficult one, for then he will probably not get by the sale of his goods enough to pay what the Bank advanced for their original purchase.

The following prices of food covering the period December 25th to December 31st are taken from a list published in Wiesbaden, a place crowded with visitors and, therefore, one in which prices are likely to be higher rather than lower than elsewhere:—

Butter per kg. ¹	96 marks (2/8)
Margarine per kg. . . .	38-60 „ (1/- - 1/8)
Eggs, each	4.40 „ (1½d.)
Milk per litre ² (controlled price)	5.20 „ (1⅔d.)
Potatoes per cwt. . . .	260 „ (7/2)
Geese per kg. . . .	44-46 „ (1/2 - 1/3)
Fowls per kg. . . .	40-50 „ (1/1 - 1/4)
Hares per kg. . . .	28 „ (9d.)
Black bread (mixed rye and wheat) per kg. (controlled price)	4.05 „ (1⅓d.)
White bread per kg. (controlled price). . . .	6.80 „ (2d.)

¹ 1 kg. = 2¼ lb. ² 1 litre = 1¾ pints.

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Rice per kg.	15-20 marks	(5d.-6½d.)
Coffee per kg.	80-88	„ (2/2-2/5)
Sugar per kg.	11	„ (4d.)
Coal per cwt. (controlled price)	45.30	„ (1/3)

These prices are, of course, many times the pre-war figures. For example, to quote the editor of one of the leading Socialist papers, sugar has increased in price 17 times, flour 23 times, coffee 25 times, rice 27 times, butter 40 times, potatoes 50 times, eggs 60 times. To the English visitor who turns them into English money at the current rate of Exchange the prices do not sound very alarming, but when multiplied by three, as we must do in order to express them in their relation to purchasing power, they represent a very heavy burden on those whose incomes have not increased in a like proportion.

CHAPTER V

INCOMES AND STANDARD OF LIVING

WHETHER prices are high or low depends upon how far incomes have kept pace with the rise in the general price level, and consequently our next subject of inquiry will naturally be:—To what extent have incomes increased since the pre-war days? In some cases, it is hardly necessary to say, the increases have been much greater than in others. Some incomes again consist of regular and periodical payments, while others are fluctuating and uncertain, and large incomes come for the most part in the latter class. What the incomes of business men are it is never possible for the outsider to ascertain, but there are certain classes of income which are known, which are in accordance with some definite scale and to these I shall confine my attention. I propose accordingly to deal

with two big classes, each with many subdivisions, which represent together a very large portion of the community. I refer to :—

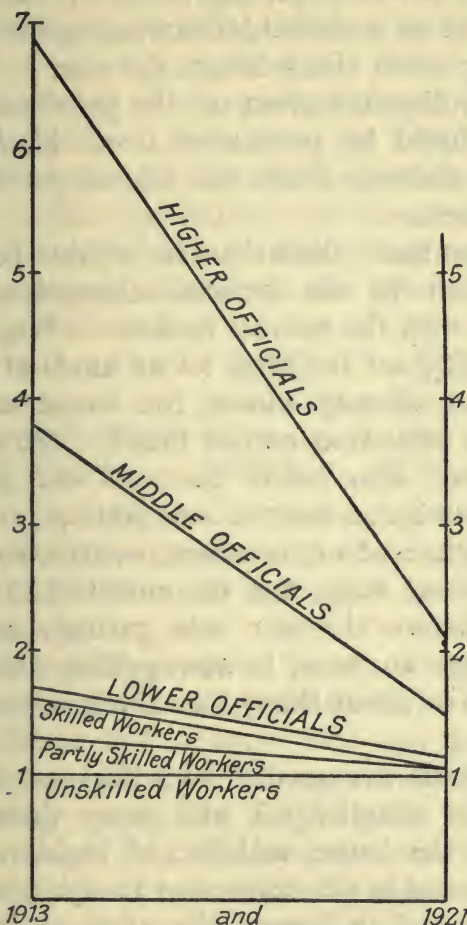
(A) Manual workers.

(B) Officials.

With regard to these two classes a few general observations must be made.

As regards manual workers, the tendency since the war has been in the direction of a levelling up of the unskilled worker to very much the same economic position as the highly skilled. A recent Table published in the *Frankfurter Zeitung* showing the wages of unskilled, partly skilled and skilled workers, gives their relations to one another as 100, 102 and 108 respectively as compared with the pre-war relations of 100, 127 and 163. Thus it may be seen that the higher class is now only receiving a wage one-twelfth higher than that of the lowest.

The incomes of officials have fallen very appreciably in relation to those of manual workers. Taking the unskilled workers as 100, those of lower officials, middle-grade officials and higher officials respectively, would now be represented by 113, 151 and 215 as against the pre-war figures of 165, 385 and

TABLE SHOWING RELATIVE INCOMES OF OFFICIALS AND
MANUAL WORKERS, 1913 AND 1921

The figures at the side show how many times each of the incomes mentioned is higher than that of the unskilled labourer.

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685, thus showing that the higher officials to-day are only getting about $2\frac{1}{6}$ times the wage of an unskilled labourer as against very nearly seven times before the war.

The diagram given on the previous page, reproduced by permission from the *Frankfurter Zeitung*, shows the altered position at a glance.

From these alterations in relative position we turn to the incomes themselves. To begin with the manual workers :—Wages are naturally not the same for all kinds of work, but, as already shown, the variations fall within somewhat narrow limits. The skilled labourer, who before the war was getting 62 pfennigs an hour is now getting probably 14 marks an hour, or about twenty-two times his former wage, but the unskilled labourer, who before the war was getting, say, 38 pfennigs an hour, is now getting about 13 marks or about thirty-four times as much as in 1913.

Officials are graded into thirteen classes, but for simplicity I will group them into three, the lower, middle and higher of the Table, and in this connexion I might mention that I had an opportunity of discussing the matter at some length with the expert who

prepared the Table and that the figures from which it was compiled are based on his knowledge and research, and may be accepted without reserve as authoritative. Taking the annual income of the unskilled labourer, on the assumption that he is in full work right through the year, as in round numbers 30,000 marks per annum, we should obtain the following figures as fairly representing the incomes of officials in the three classes mentioned.

	Present Salaries.	Pre-war Salaries.
Lower Officials . . .	35,000 marks	1,500 marks
Middle-grade Officials	45,000 „	3,500 „
Higher Officials . . .	65,000 „	6,000 „

The incomes have thus been increased in round numbers twenty-four times, twelve and a half times and ten and a half times respectively.

With regard to these figures, it will, of course, be understood that the salaries within the different grades vary with age, position and experience, but they may be taken as sufficiently typical to enable us to form a fairly correct impression of the standard of living which they are able to support. At the outset one would naturally inquire as to who are the people who come in these three

broad official classes. The outstanding difference between them, so I was informed, is one of education. For example, in the class of lower officials you would have perhaps postmen, railwaymen and others whose duties were more or less of a simple and regular kind. In the middle class would come those doing routine work in Government offices and teachers in elementary schools. In the higher class would come those occupying more responsible positions in Government offices, those engaged in educational work in Universities and High Schools and members of the learned professions in Government employ. One of the last-named class was good enough to give me in detail a typical household budget for a professional man's family, consisting of the man, his wife, two children and a maid, and he also provided me for purposes of comparison with the corresponding figures for 1913. These particulars are embodied in the Table on the opposite page and a careful study of them throws a good deal of light on how the higher official class in Germany at the present day actually lives. The income in this particular instance, it will be observed, has increased roughly speaking about twelve times, and the standard

BUDGETS FOR 1913 AND 1922 OF A HOUSEHOLD CONSISTING OF A HIGHER OFFICIAL, HIS WIFE, TWO YOUNG CHILDREN AND A MAID-SERVANT.

	1913		1922.		1922 compared with 1913.
	Per- centage of In- come.	Income of 6,000 M.	Per- centage of In- come.	Income of 70,000 M.	11 $\frac{2}{3}$ times
Food . . .	26	1,560	44 $\frac{1}{2}$	31,200	20 times
Rent . . .	16 $\frac{2}{3}$	1,000	2 $\frac{1}{2}$	1,700	1 $\frac{3}{4}$ „
Lighting and Heating . .	5	300	8 $\frac{1}{2}$	6,000	20 „
Clothing . .	18 $\frac{1}{3}$	1,100	12 $\frac{3}{4}$	9,000	8 $\frac{1}{5}$ „
Servant's Wages	5	300	3 $\frac{3}{4}$	2,600	8 $\frac{2}{3}$ „
Income Tax (see p. 104)	5	300	7 $\frac{1}{2}$	5,260	17 $\frac{1}{2}$ „
Sundries . .	24	1,440	20 $\frac{1}{2}$	14,240	10 „

of living it is now able to support might, I was informed, be regarded for the most part as being approximately what it was, but since the main items of expenditure have increased considerably more than twelve times, it is evident that such a family would have to exercise very much more self-denial in the matter of clothes and the many little comforts that go to make life pleasant than was necessary before the war. The difference between then and now was very humorously

expressed by one of my informants, though, of course, it was not intended to be taken too literally—"In the official classes," he said, "we used to change our collars every day and a 100-mark note once a week, now we change our collars once a week, and a 100-mark note every day." The amount given for food, he went on to say, covered merely the actual necessities of life—meat only four times a week, no butter, no luxuries of any kind—yet it takes $44\frac{1}{2}$ per cent. of the income instead of the former 26 per cent. People had tried, he said, to reduce the food bill but found it didn't pay ; they couldn't keep well and fit on less. That rent has not increased in a larger proportion is due to a Government Regulation which restricts the amount of the increase to 70 per cent. Lighting and heating has to be one of the economies. The 6,000 marks of 1922 represents much less in this way than the 300 marks of 1913. Coal, for example, costs forty times as much as it did and would cost considerably more if this price also were not restricted by the Government. Clothing, as I have said, is kept down by simply doing without new things. When a suit gets too shabby to wear the old one is turned and the same with the garments

of the other members of the family. In the summer the children go bare-foot for the sake of the saving to be effected. When a suit costs 3,000 marks—a very considerable portion of the income—one is not surprised that the purchase of a new one is postponed to the last possible moment. Many of the men one meets are still wearing their old uniforms dyed and remade into civilian garments. Income tax, it will be noted, is a great additional burden and the money for this has to be found by the economies in heating and clothing already referred to and by entrenching on sundries, the cutting down of which involves the greatest hardships of all, for out of the remaining 14,240 marks must come education, doctor, travelling, household replacements, taxes other than income tax, etc. The annual holiday, once regularly enjoyed, has now to be dispensed with or takes the form of a visit to a parent or other relative and even such journeys have to be done in the most economical way, travelling fourth class, carrying all the luggage, etc. This picture is not in the least overdrawn; life in the official and professional classes is one of constant self-denial. All the same, I did not hear the slightest word of complaint

from any of the people I talked with and questioned about the way they lived. They simply accepted the situation and made the best of it.

So far I have only dealt with incomes that are fixed according to some definite scale. Of business incomes it is very difficult, if not impossible, to get any particulars. Many business men are making large incomes, and some of them may certainly be described as wealthy. Trade is brisk, and profits are high, but whether this prosperity is real or fictitious requires a good deal of examination and will be dealt with in the following chapter. Judging by outward appearances, however, with the exception perhaps of the profiteers, as they are called, and of successful speculators, there would seem to be very little in the way of luxury or display.

On one of my visits, I raised the question of office salaries and from what I could gather, increases in these seem to have followed very much the same lines as those previously indicated. A first-grade shorthand typist, who before the war got 3,000 marks a year, is now getting 36,000, a twelvefold increase. The men clerks have had larger increases than the women, I was told ; they are getting

possibly twenty times more than they did, and I was told that, generally speaking, office expenses all round work out at about twenty times their pre-war amount.

The incomes of professional men, such as doctors and lawyers, naturally vary considerably according to their reputation and to the extent of their practice, but, speaking generally, such people are not nearly so well off as they were before the war. One doctor of very high repute told me that his working day was about 8 a.m. to 10 or 11 p.m. and that his income was not more than five times the pre-war amount, while his household expenses were at least twenty times what they were. This, I should imagine, is fairly typical. Many will at once ask, "How is it done?" and the answer is, by the most rigid economy and by a great deal of self-denial. People so situated live extremely simply and have to content themselves with inexpensive pleasures, mostly those which the family circle itself can afford, but perhaps the real reason why they can preserve a certain amount of comfort is that the women are so extraordinarily capable and work so hard in their households. They are such good managers and so skilled in needlework and other

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domestic arts that they are able to make the most of the family income. As already mentioned, people look well fed and comfortably dressed and for this there is very little doubt the housewife is in the main responsible.

CHAPTER VI

THE ECONOMIC SITUATION

THE discussion on the two values of the mark and the account of prices and incomes prevailing in Germany at the present time should have prepared the way for a clearer appreciation of her economic position, which it is the main object of this book to set forth.

With comparatively few exceptions, the accounts of those who have recently visited Germany seem to agree in one main particular, namely, in the belief that Germany is prosperous and, as a consequence, well able to pay what has been demanded of her in the way of Reparations and certainly, at first sight, there seem to be ample grounds for such a belief. Any traveller passing through the Rhineland would say: "Here is a country in which every one is occupied and every one is more or less well to do," and by

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way of evidence he would probably adduce the following facts :—

(1) On all sides there is the greatest industrial activity.

(2) The balance sheets of big undertakings show increased dividends and large sums placed to reserve.

(3) Unemployment is almost a negligible quantity.

(4) Factories are being enlarged and the new buildings are of a substantial and imposing character.

(5) Savings Banks report increased deposits.

(6) The shops make an attractive display of goods, of articles of luxury as well as of those of more general use.

(7) There seem to be plenty of customers, and a brisk retail trade is evidently going on.

(8) The restaurants are well filled and hotels have few vacant rooms.

(9) In the streets people are well, if not smartly, dressed and the poorer classes seem warmly clad and well shod.

There would appear, then, to be ample justification for the view referred to above, and for the opinion so widely held that

Germany has made a surprising recovery from the exhaustion, the poverty and the general absence of all comfort which characterized the country at the close of the war and has entered upon a period of very great prosperity.

The first question I put to those with whom I was able to discuss the subject—and these included, as I have already said, officials, British as well as German, business men, financiers and university professors—was, “Is Germany really as prosperous as these outward signs would seem to indicate?” and in every case without exception I got the same answer in substance, if not in so many words: “Germany’s prosperity is an appearance and not a reality,” and after somewhat lengthy discussion with them and careful consideration of the facts they put before me, I came to the conclusion that in a very large measure they were right. Before I went I was myself inclined to argue very much on the following lines: The German people are noted for their industrial efficiency, for hard work, for frugal habits, and, so far as the official and working classes are concerned, for their simple standard of living. Compared with this country they are in a very favourable

position industrially, their factories are in full work, whereas ours are, many of them, at a standstill or working very short time. They have very little unemployment, while we have an almost unprecedented number of people out of work. They are lightly taxed, while our burden of taxation is absolutely crushing. With these advantages on their side, it may well be argued that on an average each of their 60,000,000 is producing more, and possibly consuming less, than on an average each of our 40,000,000. The inevitable conclusion being that Germany must be in a far better economic position than ourselves and must be able to show a very large surplus out of which Reparations can be paid. Like all reasoning of this kind, the truth of the conclusion, provided the reasoning itself is not faulty, depends on the truth of the assumptions. Let us, therefore, apply the test of facts and with a view to this, the most satisfactory course, perhaps, will be to take in order the signs of prosperity given above and see how far each in turn may be regarded as substantial.

I. About the present industrial activity there can be very little doubt, but is it right to

assume that such activity is resulting in a great accession of wealth to the country as a whole and to the individuals more immediately concerned in its production? It is true that the manufacturer has his book full of orders, many of which come from abroad, and so far as he is concerned, it may be said that he is doing well if he is able in completing these orders to sell what he produces at a profit. But the currency has been rapidly depreciating and he may have made the contracts to supply the goods, say, three or four months ago, when prices were possibly little more than half what they are now. He had already bought his raw material and his labour was paid at a rate which we may assume did not alter during the period of production, so that his books would doubtless show a clear profit on the transaction when at a later date he was paid for the goods. But what he received had, we may assume for the sake of argument, only half the purchasing power it had when the goods were ordered. How then is he to buy new raw material and put an adequate amount to reserve for replacements, which are likely to cost him in the future even larger sums than they would at the present time? His works have

been kept busy, his books show a profit, but he is a considerably poorer man. He has gained in income, but he has lost in capital. If his raw material has to be imported, the situation is even worse, because the external value of the mark has fallen even more than it has internally and the raw material he buys now to replace the old will necessarily be at a greatly enhanced price. As one very responsible German official said to me one afternoon, when I was discussing the matter with him, "All business to-day is merely a gamble in currency and Exchange." In this gamble some win and some lose, but taking industry as a whole it would only be reasonable to conclude that the present manufacturing activity cannot be regarded as a clear indication of real national wealth and prosperity.

II. It is only natural that, when one looks at a balance sheet and sees that dividends are increasing and that larger amounts are being placed to reserve, one should say that the company is doing extremely well, that its shareholders are getting better incomes and that its general financial position has improved. But this again is somewhat illu-

sory. Profits in paper marks at first sight appear gigantic, but if we remember that these marks have perhaps not more than one-twentieth of their old purchasing power, they do not look quite so big. With goods at their present prices the turnover in marks for the same amount of business would be infinitely greater than in pre-war times and the profits, also in paper marks, would likewise show an enormous increase, but is this really bringing any greater purchasing power, for that is the real test, to the partners or shareholders? Let us take as an example a person who before the war had invested 10,000 marks in a certain company and was getting 5 per cent. interest. His income from this investment at the time it was made would have been 500 marks, but what is the situation to-day? If the nominal capital has not been altered and that person's holding is still the 10,000 marks, while the dividend has been increased to 10 per cent., the income would appear to be twice what it was before, or 1,000 marks. But the purchasing power of the mark in Germany is not more than one-twentieth of what it was in 1914, hence, though the dividend has been raised from 5 per cent. to 10 per cent., the purchasing

power represented by the income received from the investment is only one-tenth of what it was formerly. In most companies, however, the nominal capital of the company has been raised, though not in any way in proportion to the increase in the value of the company's assets—buildings, machinery, raw material, stock, etc.—when measured in marks at their present depreciated value. From figures put before me and from the inquiries I made, it would appear that the nominal capital of companies generally has been increased perhaps two, three or even fourfold, and if this is the case, even if we were to take the most favourable circumstances likely to occur, namely, that the dividend were double and the nominal capital were increased fourfold, the income of the person we are considering would have a purchasing power of less than half of what it had before the war. In most cases it would, I think, be nearer the truth to say that the real value of incomes derived from investments has fallen to one-fifth or even one-tenth of the pre-war amount.

The other item in German balance sheets which has provoked most comment is perhaps the very large amount placed to reserve for

depreciation, etc., but when one remembers that all replacements will have to be made at a greatly increased cost of labour and materials, it is more likely than not that when the time for replacement arrives the manufacturer will find that he has underestimated rather than overestimated his liabilities in this respect. The following illustration, which may help to make the argument clear, is taken from actual business experience. A certain type of furnace cost in 1917, when the depreciation of the mark was comparatively slight, some 100,000 marks. Its average working life is about five years, so in the ordinary course of things it would be worn out in 1922 and require replacement. With this in view, the sum of 20,000 marks annually was at first set aside for depreciation. But after the Armistice the mark began to depreciate rapidly, and depreciation has gone on since then at an ever-increasing rate, so that at the present time it would probably be true to say that to replace that furnace would cost at least 2,000,000 marks. But what is the position of the depreciation account? It may conceivably be very similar to the imaginary one now given—

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DEPRECIATION ACCOUNT OF FURNACE COSTING 100,000 M. IN 1917

1918	Placed to Reserve	.	.	20,000 marks
1919	„ „	.	.	50,000 „
1920	„ „	.	.	100,000 „
1921	„ „	.	.	<u>500,000 „</u>
Total in 4 years		.	.	670,000 „

But the furnace will cost 2,000,000 marks to replace in 1922, so that it is quite clear that the 500,000 marks put to reserve in 1921, though it seems so large a sum, was not enough to make up for the smaller reserves of the previous years when the mark had a higher value, and the company will now have to face the problem of how to find the 1,330,000 marks still to be added. The only conclusion then that can be drawn from these examples is that high dividends and the placing of large sums to reserve do not necessarily imply real prosperity.

III. That there is very little unemployment in Germany at the present time is borne out by the evidence of all those I consulted. So difficult is it to get additional men for any special job, that when one day in Cologne there was a slight fall of snow, anxiety was felt as to what might be the state of the streets

if the downfall should prove a heavy one, for it would have been extremely difficult to find labour to clear it away and it is quite possible (though I was not told so) that in such an emergency our troops might have been required to render assistance to the civil authority.

If one needs any evidence as to the state of the labour market in Germany, one has only to look at the advertisement columns of any German daily paper. Under the heading "Situations Vacant" there are literally pages of notices beginning, "Skilled engineer wanted," "Vacancies for several clerks in a First-class Bank," "Manager wanted for Branch Establishment," "Correspondence clerks wanted with good English, French and Spanish," and a great variety of others too numerous to mention, mostly inquiries for workers in the higher grades, while under the heading "Situations Wanted" there are very few advertisements to be found. This state of things is the more remarkable when one considers the huge number of Germans who have been turned out of other countries or who have of their own free will cleared out of the districts taken from Germany, such as Alsace-Lorraine, the Saar

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Valley, Upper Silesia, etc. What a contrast to the state of things in this country at the present time !

This absence of unemployment can be attributed to various causes, but the following are probably the most important :—

(a) The introduction of an eight-hour day involving a diminution in the output per man per day, and the practice of working in eight-hour shifts, have undoubtedly led to the employment of a larger number of men, and in this connexion it may be worth pointing out that an eight-hour day is for the most part fairly rigidly adhered to. It has very frequently been stated that Germany's power to undersell us in our own market or abroad is largely due to the long hours worked, but on this point I was immediately put right and it was made perfectly clear to me that overtime is the exception and not the rule.

(b) Speaking generally, workers have not yet fully recovered from the war strain and from shortness of food, etc., and for this reason also the daily output per man is below what might be regarded as the normal.

(c) Though a great deal has been done in the way of bringing machinery up to date, there are still many factories in which mechani-

cal appliances are old-fashioned, or not in the best running order. This would also diminish the output per man and constitute a third reason why at a time when orders are so very plentiful an unduly large number of men must be taken on.

(d) The orders themselves must, of course, be regarded as the fundamental cause of this full employment. Orders from abroad pour in because of the great difference there is between the internal and external value of the mark. Home orders pour in because of the immense amount of retail trade going on in the country. This latter is a condition of things which requires a word of special explanation. At every big drop in the German Exchange (that is in the external value of the mark) two things have happened:—

On the one hand, foreigners have been tempted to visit Germany and to buy very largely in the shops where the prices when translated into terms of their own currency seem ridiculously low. A well-known German economist told me that he was spending a short holiday in a German town on the Swiss border when one of these sudden drops in the Exchange occurred, and that for some days it was practically impossible to get

into the shops, so great was the rush of would-be purchasers from Switzerland. I was also told that in Cologne on a similar occasion a motor lorry from either Holland or Belgium, I forget which, drove up to one of the larger shops and after a short time departed absolutely laden with wares of various kinds. In occupied territory this is now impossible, the High Commissioner having placed an embargo on transactions of this kind, and in towns like Cologne or Coblenz one can only purchase what one needs for one's own personal use.

On the other hand, these rapid falls in the Exchange which have as a rule followed some extra large issue of fresh paper money, tend to create a great feeling of insecurity amongst Germans of all classes. They do not know at all what is going to happen, but they feel sure that retail prices will rise and the internal value of the marks they hold correspondingly fall, and so they all rush to buy everything they can while prices are still at the lower level. At the same time they have a feeling that even if the mark were to lose all its value they would at least in this way have something tangible in the way of wealth. The effect of all this on the factories is easily imagined, as the tradesmen at once place

orders to replenish their depleted stocks.

(e) A further point also is worthy of mention. It was suggested to me by some one well acquainted with the facts that the absence of unemployment was partly due to the fact that large numbers of the demobilized men had returned to Government employment, and this in many cases without the dismissal of those who had taken their places during the War. This, he said, was especially the case on the railways, where an exceptionally large, and possibly an excessive, number of men are now employed.¹

How, then, it may be asked, does this abundance of work that seems so evident affect the question of national prosperity? In the first place it is undoubtedly a good thing to have a full and regular demand for labour, as it means the maintenance of a standard of living which, though not high, does at least mean absence of want. Secondly, wealth is being produced in very large quantities, which is supplying a brisk internal trade and is helping to pay for the food and raw materials which it is necessary to import.

¹ Since the above was written, the German Government has notified its intention of discharging 40,000 railwaymen, thus fully bearing out the statement made.

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But against these must be set the fact that the industrial activity is largely due to abnormal conditions, and it appears to be maintained and to flourish on successive depreciations of the currency at home and abroad. What may happen when these conditions are reversed it is difficult to say, but those with inside knowledge look forward with apprehension to a terrible period of unemployment and industrial collapse.

CHAPTER VII

THE ECONOMIC SITUATION—*continued.*

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WE have so far examined the first three of the marks of apparent prosperity enumerated at the beginning of the last chapter. We must now consider, though somewhat briefly, the six which remain.

IV. The extension of factories and the building of new and imposing works is a sign of prosperity which it is difficult to disallow. A substantial addition to the productive capacity of a country, provided that such addition is not beyond its requirements, can hardly be looked upon as anything else than a definite addition to its present wealth as well as to its future wealth-producing capacity, and, as a rule, an addition of this kind is only made when things are in a flourishing condition. Various efforts were made to prove to me that I was wrong in so

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regarding the matter, but I am afraid I was not altogether convinced. It is only fair, however, to put forward here the views of my objectors :—

(1) These new buildings and new plants are a sign not of wealth but of poverty, a measure more of the condition of things left by the war, and of the urgent need of improvement than of any present success.

(2) The Allies demand payment in the way of Reparations; this can only come out of surplus wealth, and there can only be a surplus if industrial equipment is extended and made as efficient as possible.

(3) It must not be supposed that the improvements are being made out of profits. They are, for the most part, being made out of loans which can be obtained at a low rate of Interest,¹ and in cases where money is advanced by the Government it merely means the issue of additional paper money.

I give these arguments for what they are worth and they, at any rate, are useful in this respect, that they help us to realize how these things are regarded in Germany

¹ On application at the Deutsche Bank the writer was informed that the current rate of Interest on Deposit Accounts was $1\frac{1}{2}$ per cent.

and to appreciate more fully the general condition of things in that country.

V. In the ordinary way one would be fully justified in regarding Savings Bank deposits as a very good index to the economic condition of the working classes, but since the value of the mark is different at different times all comparative returns are entirely valueless unless we take into consideration the purchasing power of the mark at the particular time under review. We have in England, as one of my informants pointed out to me, a comparatively stable measure of value, namely the pound sterling, but measuring in marks, he said, is very much the same as using instead of a rod of fixed length a piece of elastic that can be extended or contracted at will.

If we say that Savings Bank deposits are two or three times what they were a couple of years ago, say at the beginning of 1920, we have to remember that prices and wages were very much lower at the earlier date and that the mark consequently at the present time represents much less effort, a much smaller part of a man's weekly wage, and a much smaller amount of purchasing power

than it did then. Hence the increase of savings referred to may in reality be said to indicate a diminution and not an increase of the amount saved.

In this connexion it may be observed that a disinclination to save is a very marked feature of the German mentality at the present time. Few people are willing to save when they know that what they save is likely to depreciate rapidly in value. But the majority of people are not able to save because their incomes are not more than sufficient to maintain even a modest standard of living, but those who have any margin are much more likely to spend it at once than by means of it to make provision for the future.

VI, VII, VIII. These three headings may conveniently be taken together, because they are all concerned with questions of personal expenditure.

Those who buy the most expensive articles in the shops, frequent the more fashionable restaurants, stay at the higher grade hotels, or occupy the stalls at the theatre, belong mainly to one of two classes. On all hands I was told that they are for the most part

either foreigners taking advantage of the low external value of the mark and the greatly increased purchasing power which their own currency has in Germany, or they are, to use a word which is in every German's mouth, profiteers, and to these may be added persons like those just referred to, who, having money in hand, spend it rather recklessly, and speculators whose gains being quickly earned are quickly dissipated. Speculation on the Stock Exchange seems to have spread very rapidly in Germany owing to the present economic conditions. The speculators themselves belong, it may be said, to two more or less well defined classes. There is the man (and woman too) who finds it very difficult to make both ends meet and seeks in speculation a possible way of improving his (or her) financial position, and there are the reckless, so frequently referred to above, in whom the instability of the present and the uncertainty of the future have fostered a gambling spirit. In every street outside the Banks and other financial establishments you may see lists of the principal securities with the market values attached, and you will always find a certain number of people studying them, but at three o'clock, when the Stock

Exchange closes, there is a regular crowd of men and women eagerly noting the latest quotation of the Stocks in which they are specially interested. It is not very surprising, perhaps, that those fortunate ones who are suddenly confronted with the fact that their speculations have been successful, should rush off and celebrate the occasion by the purchase of some usually unattainable thing or by a champagne dinner at a restaurant, with stalls at the Opera afterwards.

Exceptions of this kind then can hardly be seriously regarded as an indication of prosperity, but there is, of course, the great volume of retail trade in articles of food and clothing, in household requisites and in the various other things which go to make up the expenditure of people with small or moderate incomes, and this gives us an impression that the great masses of the people have the means of satisfying at any rate their more immediate wants and that regular employment finds its counterpart in the busy trade in big store and small shop alike.

IX. The absence of outward signs of poverty in the streets speaks much for the

self-respect of the Germans as a race. There is poverty, with its accompaniments of under feeding and insufficient clothing, as the Reports of the Quaker organizations, which have done so much good work in Germany, make very clear.¹ A German doctor told me that in a big Elementary School which he attended professionally there were many cases of children with little or nothing on under their outer garments, but those that one met in the streets seemed for the most part to be warmly clad and to have stout-looking boots on their feet. One was certainly struck by the general neatness of their appearance and if, as must have been the case, many of them came from poor homes, it speaks volumes for the time and care that must have been bestowed on keeping their clothes in this condition, and this comfortable-looking exterior we must regard as a sign not of great national prosperity, but of the national virtues of domesticity and thrift.

From what has been said it is sufficiently

¹ It was curious to note that these organizations were always spoken of as "The American Quakers." That English Quakers were taking an active part in the work and were raising considerable sums of money for it, seemed to have escaped notice altogether.

clear, I think, that in such abnormal times the ordinary, superficial tests of national prosperity fail to give us any results that we can regard as really satisfactory. We must fall back, therefore, on the more general considerations. If we compare the economic position of Germany to-day with what it must have been at the time of the Armistice we cannot help feeling amazed at what has been done in the interval to repair the ravages of war and to increase the amount of material wealth actually existing in the country. When I am told that in the past three years conditions have been such that there has been no surplus of production over consumption, even though consumption has been on such a low scale as to involve deprivation and hardship, I cannot help replying—"then where has all this wealth come from which was certainly non-existent at the end of 1918?" Take for example the question of stocks of various kinds in the home, in the shop, in the warehouse. Here surely there is an immense increase of material wealth, the value of which would represent a very considerable sum. At the end of 1918 the people were very short of clothing, in fact, under War Regulations any surplus garments had

had to be given up and there was a similar dearth of many articles of ordinary household use. To-day, though probably the home is not nearly so well provided as it was in 1914, especially in the matter of clothing, household linen and furniture, yet the condition of things is very different from that in Nov., 1918. Take the shops again, in 1918 stocks were of the scantiest possible description, to-day, as I saw for myself, the shelves and the counters are well covered and there seems no lack of any sort, in quantity, quality or variety. Passing on to the warehouses, we get very much the same state of things, while in addition, the factories are very much better supplied with raw material, and large sums must have been spent in turning from war industry to peace industry and in the work of renewing and repairing generally.

This re-stocking of the country then must have absorbed a very large amount of the results of national industry in the past three years. It must be remembered also that there have been other drains on the wealth produced during this period. The depreciation of the external value of the mark has meant that Germany has had to pay very heavily in her own products for the raw

materials needed for her industries and for the food-stuffs it has been necessary for her to import. This last item, it should be noticed, is a very much bigger one than in pre-war days. Formerly, Germany was dependent on foreign sources for only one-fifth of her food requirements, at the present day her imports of food are probably nearer one-half. This is mainly due to the effect of the war on her agricultural resources. During the war, as one can very easily imagine, the soil was pressed to yield the very maximum at a time when some fertilizers like phosphates were extremely difficult, if not impossible to obtain, the consequence is that the soil is exhausted and hence, the returns to Agriculture are still very much below the normal. This is the same with regard to dairy products. The ordinary feeding stuffs, oil-seeds, oil-cake, etc, are very costly to import and the cows give very little milk for want of them.

As regards the production of wealth, then, it can fairly be said that during the past three years, German industry has shown itself capable of producing far more than her people consumed. But the necessity of replenishing stocks, of repairing machinery

and of replacing much that was out of date, of purchasing food and materials from abroad with a greatly depreciated currency, of meeting the very heavy Government expenditure, have absorbed a great deal of the wealth produced, and have made the question of any real surplus a very problematical one.

As regards the balance of trade, imports as measured in marks have greatly exceeded the exports, and the invisible exports, interest on investments abroad, etc., have diminished as a result of the war, so that the financing of foreign trade is causing some considerable embarrassment and contributes to the great depreciation of the mark externally.

The state of the national finances may also be regarded as one of the more general tests of prosperity and these are certainly in a most unsatisfactory condition. With a large annual deficit, with a heavy burden of taxation which fails to bring in an adequate revenue, with continuous fresh issues of paper money to enable the Government to pay its way, we have a situation the very reverse of satisfactory.

Every one in Germany is looking to the future with the greatest possible anxiety. The restoration of the mark and its greater

stability are felt to be absolutely necessary before German trade and industry can be on anything like a satisfactory footing and before she can enter the great markets of the world as a buyer and a seller on something approximating to her pre-war footing. That she should be able to do so is generally admitted to be necessary to the dispersal of the present heavy cloud of trade depression and to the restarting at its normal pressure the great engine of international trade. But amongst those in Germany who have studied the subject there is but one settled conviction and that is that though the recovery of the mark is for Germany's as well as for the world's full recovery an absolutely necessary thing, yet it cannot come without having as its first consequence a more or less complete collapse of Germany industrially and financially. The recovery of the mark would mean a very great fall of the present inflated prices, tradesmen who have stocked their shops and manufacturers who have in their warehouses raw material or finished goods purchased or manufactured at the higher rates of prices and wages would find themselves involved in ruin. The banks, which have doubtless made advances against these stocks,

would have a rapidly dwindling security for their loans, manufacturers with their books full of foreign orders for many months ahead, orders which were only placed because of the great advantage which the depreciated mark afforded, will find that those orders are cancelled on every hand and that they have to reduce the number of men they employ or even close the factories altogether. Unemployment would then be widespread and the social and political consequences of such a state of things are difficult to anticipate.

Is it any wonder, then, that there is observable a tendency in business circles to recklessness and speculation, to the feeling that it is better to enjoy to-day because there is no knowing what the morrow has in store, a feeling engendered on all sides by the instability and uncertainty which prevails. Germany is like a patient who has to go through a serious operation before full restoration to health and strength is possible. The present condition of things is so abnormal and so unhealthy that it cannot go on much longer as it is. A change must come, but what that change will bring in its train no one can foretell.

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This seems to be a gloomy picture, but, so far as I have been able to judge after discussing the matter with responsible and reliable people, it is not in the least overdrawn.

CHAPTER VIII

THE MEANS OF PAYMENT

THE question of Germany's prosperity is in the minds of many closely bound up with that of Reparation payments and hence it is necessary to set out a few facts and impressions which may be helpful in this connexion.

Reparations, whether in money or in goods are, as already pointed out, payments from one Government to another. The Government making such payments obtains the means of doing so either from its own resources or from those of its subjects. The State can demand a part of the accumulated wealth or of the annual income of its various members and the amount it can so demand depends obviously on the general prosperity.

It is possible, of course, for the people to be prosperous and for the State to be poor, and that this is the case in Germany at

the present time is firmly believed by many people in the Allied countries. On the other hand, it is equally obvious that, to quote the words of an old writer, "The King cannot have treasure when his subjects have none." Granting this, the argument might be expressed as follows:—If Germany is prosperous while the State pleads poverty, German taxation is either inadequate or carelessly administered. If, on the other hand, the German is taxed practically up to the limit and yet the State is poor, it would serve to show either that its expenditure, whether for internal or external purposes, is excessive, or that the wealth on which it can draw is deficient.

The question of prosperity having already been discussed, it remains to take up those of taxation and expenditure. It has frequently been stated that, as compared with the people in Allied countries, Germans are on the whole lightly taxed. The figures that have been quoted from time to time, comparing the taxation per head in different countries, being expressed in terms of pounds, shillings, francs or dollars based on the current rates of Exchange, do not, as I have shown in Chapter III, give a really accurate view of the position. We must take into

account the difference between the internal and external values of the mark, and at the same time bear in mind that absolute sums of this kind do not give any indication of the real weight of the burden borne by individuals. Whether taxation is heavy or light depends on ability to pay what is demanded and is consequently relative, not absolute, thus bringing us back again to the question of prosperity. What would be instructive to know is what proportion of the total national wealth in each country is taken by the State for national purposes. This, doubtless, it is hardly possible to ascertain,¹ but we can at least try to get some more or less clear estimate of the burden falling on each person by a consideration of the different taxes that are imposed and the proportion they bear to individual wealth and incomes. The amount paid by an individual in indirect taxes it is never possible to gauge, so for the purpose of this calculation I must confine myself to impositions of a direct character, not forgetting, however, that these constitute only a portion of the burden that the citizen has to bear.

The tax system of Germany is an extremely

¹ See note on p. 113.

complicated one, so complicated indeed that a well-informed person said to me, half in jest and half in earnest, that not even the Revenue Officials themselves could understand it. To describe it fully would go far beyond the bounds of this particular work, but it should not be impossible to present a fairly clear picture of its main features.

Direct Taxes may for convenience be divided into two principal classes:—I. Taxes on property ; and II. Taxes on income ; but there is a third class which might almost be included under this heading, viz., Taxes on Transactions. The incidence of these, however, is not sufficiently clear for them to be classified as Direct Taxes without closer investigation.

I. PROPERTY TAXES.

Very shortly after the conclusion of the war two levies on property were made, which have naturally diminished in perpetuity incomes derived from this source. They were non-recurring payments and merely consisted in the transference to the State for Government purposes of a considerable amount of the accumulated wealth of the country.

The first of these, the *War Tax on increment value*, was based on a comparison between

the wealth owned in 1919 and that owned in 1913. The maximum increase allowed was 172,000 marks and what exceeded this amount had to be handed over to the State. Thus, if a man's property, which in 1913 was valued at 1 million marks was in 1919 valued at $1\frac{1}{2}$ millions, 328,000 marks of the increase would have to be paid as War Tax. In making the calculation, it ought to be noted that no allowance was made for any depreciation in the value of the mark which had taken place during the period. A further point to note is that the tax in this form fell only on private persons ; businesses had to pay on their excess profits a graduated tax not exceeding 20 per cent.

The second of these demands was a so-called Capital Levy, calculated not on property increase only, but on the whole value of the property. This levy, which could either be met in one payment or by a certain number of annual instalments, fell both on persons and on Corporations.

With regard to the latter, it consisted of a 10 per cent. tax collected from the shareholders on the amounts of their respective holdings, and with regard to the former, the scale of payments was as follows :—

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10 per cent on the first 50,000 marks

12 per cent. on the next 50,000 „

15 per cent. on the next 100,000 „

and so on, with 65 per cent. on everything above 2,000,000 marks. Thus a property of the estimated value of

750,000 marks (£5,350) paid 161,000 marks ¹

3,000,000 „ (£21,400) „ 1,171,000 „

6,000,000 „ (£42,800) „ 2,871,000 „

Small exemptions were made varying with the number in family, but they do not materially affect the general result.

In addition to the two non-recurring payments just described, there are two small property taxes dating from before the war and still continued. They are:—

1. A tax for imperial purposes on the *increase* of property with a maximum rate of $2\frac{1}{2}$ per cent. levied every three years on the increase that has taken place since the assessment of three years earlier.

2. The State (Provincial) Property Tax levied in most of the German States on the full amount of property owned. This is an

¹ Calculated on the basis of 139 marks to the £, at which figure the Exchange stood on January 1, 1920.

annual tax of small amount, the rate being fixed every three years.

Death Duties.—Further very heavy taxes on property are those levied when property is transferred from one person to another by will or by gift. The *Death Duties* are two in number. There is the Legacy Duty (corresponding to our Estate Duty), levied on the whole value of the estate and varying from 1 per cent. to 5 per cent., according to amount, and there is an Inheritance Duty (our Legacy Duty), varying from 4 per cent. to 70 per cent. according to a scale which takes into consideration both amount and relationship. The *Duty on gifts* is the same in amount as the Inheritance Duty, so that there is little inducement for this kind of evasion.

II. INCOME TAX.

Since April 1, 1920, there has been one uniform Income Tax levied throughout the whole of Germany and taking the place of the taxes on income which were formerly raised for State (Provincial) and municipal purposes. All forms of income come under it—lottery winnings, profits on Stock Exchange speculations, etc., not escaping. The method of

assessment is very much the same as that employed for the Capital Levy.

The following Table shows the scale which prevailed down to the end of 1921, together with the new scale which came into force January 1, 1922¹ :—

Scale of March 25, 1921.		Scale of December 20, 1921.	
First 24,000 M. . .	10%	First 50,000 M. . .	10%
Next 6,000 M. . .	20%	Next 10,000 M. . .	15%
„ 5,000 M. . .	25%	„ 20,000 M. . .	20%
„ 5,000 M. . .	30%	„ 20,000 M. . .	25%
„ 5,000 M. . .	35%	„ 100,000 M. . .	30%
„ 5,000 M. . .	40%	„ 100,000 M. . .	35%
„ 70,000 M. . .	45%	„ 200,000 M. . .	40%
„ 80,000 M. . .	50%	„ 500,000 M. . .	45%
„ 200,000 M. . .	55%	„ 500,000 M. . .	50%
Additional amounts .	60%	„ 500,000 M. . .	55%
		Additional amounts	60%

In most cases, apart altogether from Income Tax, certain other taxes have been previously deducted before the income reaches the recipient. A Municipal Land and House Duty has come off incomes derived from real property and a business tax varying from 5 per cent. to 20 per cent. has been deducted in the case of incomes derived from business. The only income from which no deduction other than Income Tax is made is wages. Doctors, authors and certain other classes of professional men have to pay a business

¹ See note on p. 114.

tax of $1\frac{1}{2}$ per cent. on the fees they receive.

A tax of 10 per cent., corresponding to the Income Tax on persons, is levied on Joint Stock Companies and other Corporations, and as this has to be paid before profits are distributed, it is really a further addition to each shareholder's burden.

III. TAXES ON TRANSACTIONS.

The first of these is the Turnover Tax of $1\frac{1}{2}$ per cent. on the amounts paid every time goods are exchanged for a money payment. In the case of articles of luxury there is an additional tax of 15 per cent. and as the list of such articles is a very long one, it would appear that only the ordinary requirements of life escape it. Under this heading may also be placed the various Stamp Duties, the Amusement Tax and others of a somewhat similar character.

From the above survey, there would seem to be some justification for the statement of the German Imperial Chancellor that the German people are very heavily taxed, but still the fact remains that the revenue falls very far short of expenditure, his own estimate being that in the coming year there is likely to be a deficit of no less than 183

milliards of marks. He calculates that, as regards ordinary revenue and expenditure, he is expecting a surplus of some $16\frac{1}{2}$ milliards, but against this have to be set rather more than 12 milliards for subsidies of various kinds (post office, railways, etc.) and the sums required for indemnity payments amounting to nearly 187 milliards. If, then, it may well be asked, the contention is true that the German people are already heavily taxed and that there are many, the majority, in fact, whose burden cannot very well be increased, is it not possible, without injuring industry, to demand more of the well-to-do minority at the sacrifice merely of certain luxuries or extravagances? To this a very simple answer could be given. The German Government itself would appear to believe in this possibility or it would not have brought forward, as it has now done, proposals for additional taxation, evidently intended to apply more particularly to the wealthier members of the community. But the last part of the question contains an assumption which our experience in England at the present time would convince us is not altogether sound. It suggests that, when a country is already heavily taxed, additional

burdens cannot be imposed without injuring industry. That many of our industries are almost at a standstill, that our commerce is far below normal, that vast numbers of our workers both with hand and brain, are unemployed and undergoing considerable privation, may be attributed to a variety of causes, but one of these, and by no means the least important one, is generally allowed to be our present very heavy load of taxation.

A few words on these new taxes may not be out of place. It is estimated that they will yield about 55 milliards of marks, or rather more than half the total estimated revenue for 1922. This additional sum is to be obtained in various ways. The taxes on property now in force are to be considerably raised and the Turnover Tax is to be increased to 2 per cent. As materials and goods change hands many times before in the finished form they reach the consumer, this 2 per cent. on every act of exchange is no inconsiderable burden. The Coal Tax is to be raised to 40 per cent. and the Customs Duties are to be collected on a gold basis. Indirect Taxes, including Customs Duties, are to be greatly increased and the Chancellor promises further reform in the direction of collection at the

source, earlier payments and stricter inspection.

That the burden looks heavy, hardly anyone would deny. But are these taxes really paid? It is frequently said that taxes in Germany are (*a*) evaded, (*b*) in arrears, and that the poverty of the Government is due, not to any want of ability to pay, but to inefficient methods of collection.

As to evasion, there is very little doubt that this is somewhat extensively practised, though severely punished when detected.¹ But evasion is perhaps not altogether unknown in this country, while in France it is said to be far from uncommon. Evasion, however, is only possible in certain cases and these unfortunately occur where ability to pay is greatest. The man whose source of income is known, such as the workman and the salaried employee or official, cannot possibly escape, in fact, as already mentioned, a part at any rate of his tax is deducted at the time of payment. The income from certain forms of property too can be easily

¹ The usual penalty is a fine amounting to a certain number of times the amount of duty evaded. For a second offence, a double fine is imposed and imprisonment up to two years. For further repetition of the evasion, the term of imprisonment may be increased up to five years.

ascertained by the authorities and can be taxed at the source, but business incomes and investments or property abroad are much more difficult to assess. The examination of books on a large scale would, as one informant pointed out to me, involve a whole army of officials and it would be almost impossible to find enough people with the necessary qualifications to perform the task.

Evasion is very largely a case of mental attitude—of psychology, but it may also be a question of political morality. There is a great deal of difference between evasion because the object to which the proceeds of the taxation will be applied are matters of conscientious objection or personal resentment, and evasion arising from a deliberate attempt to escape one's share of national burdens or to secure the satisfaction that might possibly be derived from getting the better of the tax collector.

There is very little doubt that the evasion which goes on in Germany to-day is due partly to the feeling that the taxation is excessive and that the burden imposed is unreasonable, if not intolerable, and partly to unwillingness to contribute to the payment of Reparations. On this point I will say a

few words later on when dealing with the question of the German attitude towards Reparation payments. We get a very good example of the former in the case of the business man who, as explained in the last chapter, might be making a profit on all his transactions, but at the end of the year finds himself financially much worse off than he was at the beginning. The State assesses him for Income Tax on the so-called profits and makes no allowance for the capital losses incurred. Hence, in order to avoid paying a heavy tax on an income which is fictitious rather than real, it is conceivable that, under the circumstances, he might persuade himself that evasion was perfectly justifiable. Suffice it to say that, as a well-informed person expressed it, "Greater burdens would not bring greater revenue, they would only lead to still greater evasion and evasion can only be prevented by strengthening the will to pay."

When considering the question of arrears, one would be inclined to blame the Government very severely for the inefficiency of its administrative machinery in not enforcing payment when due. We are not, of course, unacquainted with arrears of taxation in this country. In certain cases, more especi-

ally in connexion with Customs or Excess Profits Duty, questions of principle or of fact have been raised which have required investigation, sometimes of somewhat lengthy character, and this has led to the payment of taxes being delayed till long after they have fallen due. But as a general rule taxes have to be paid at the appointed time, and if they are not paid summonses are issued. When, therefore, we are told that in Germany in a very large number of cases Income Tax for 1920 has not yet been collected and that that for 1921 hardly collected at all, we should be inclined to say, as it has been frequently said in Allied countries, that the German Government was not troubling to enforce the payment of taxes, partly because any severity in this direction might alienate sympathy from the new regime and lead to political trouble, and partly because of unwillingness to extract money for Reparations from a people unwilling to pay them. On going into the matter, however, I became convinced that the arrears were due to another cause, which it is only fair that I should explain somewhat fully.

When the new order of things was established in Germany a very complete change

was made in its financial system. Hitherto, the individual States of the German Empire collected their direct taxes and applied them to State (Provincial) purposes; direct taxes were also collected by municipalities for local purposes. Imperial taxation was mainly of an indirect kind and the necessity of raising an Imperial Revenue in this way has frequently been allowed even by staunch free traders as sufficient justification for the German Customs Tariff. This system is now altered and the direct taxes are being collected by the central Government, or in other words, by the "Reich." This change has necessitated the construction of an entirely new administrative machinery, with its headquarters in Berlin and its branch offices throughout Germany. The difficulties connected with the setting up of this new department and the obtaining of the large staff of qualified persons required, have led to great delays in the sending out of notices, in the examination of returns and in the investigations of disputed cases. The result is arrears of a very considerable extent. But I was informed by some one intimately acquainted with the working of the financial department, whose capacity to judge I have

no reason to doubt, that the administrative difficulties were now over and that all arrears would, it was expected, be recovered by the end of 1922.

The loss which the German Government has sustained by this delay is a very serious one owing to the way in which the value of the mark has depreciated. A tax payment of, say, 1,000 marks would in 1920 or even some six months ago have had a much greater purchasing power than now. In paying up their arrears, therefore, the taxpayers are making a considerably less sacrifice and the Government, having to meet an expenditure based on higher salaries and costs generally, will suffer accordingly.

NOTE TO PAGE 99.

Since the above was written the German Government has furnished the Reparation Commission with a good deal of statistical information bearing on this point. Reckoning the average German income as 3,900 marks (the figure supplied by the League of Nations), the total national income would amount to 312 milliards. Of this, according to the new fiscal proposals, the amount to be collected by taxation for 1922 is estimated to be 97·3 milliards, or 31·19 per cent. of the national income.

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SUPPLEMENTARY NOTE ON GERMAN INCOME TAX.

In addition to the changes mentioned on page 104, the old abatements of 120 M. for the taxpayer, 120 M. for his wife, 180 M. for each child and 180 M. for incidentals have been increased to 240 M., 240 M., 360 M. and 540 M. respectively; and further, with regard to officials, clerks and the various kinds of workers, a 10 per cent. flat rate, subject to the above abatements, has been substituted for the former sliding scale.

Some comparison is now possible between the amounts paid in Income Tax for incomes of similar purchasing power in Germany and Great Britain. Reckoning 800 M. to the pound and then multiplying by 3 to get the purchasing power in Germany, as explained in Chapter III, we arrive at the following figures :

COMPARATIVE TABLE SHOWING TAX ON EARNED INCOMES.
(Abatements calculated on basis of man, wife and two children.)

German Income. Marks.	Purchasing Equivalent in English Money. £	German Income Tax. Marks.	Purchasing Equivalent in English Money. £	British Income Tax. £
50,000	187·5	3,260	12	nil
100,000	375	13,760	52·5	7·5
200,000	750	45,500	171	82·4
400,000	1,500	120,500	452	284·9
1,000,000	3,750	385,500	1,446	1,073·6

From this Table and that given on page 104 it becomes evident : (a) that the burden of the German Income Tax has been diminished, more especially on the smaller incomes, probably in consideration of the greatly increased cost of living; (b) that, though diminished, the German Income Tax is still considerably larger than our own.

At the same time it should be noted that the effect of the new taxation proposals taken as a whole, as pointed out on page 107, is to increase very considerably the total amount of the burden imposed, and not to diminish it as might be inferred from the alterations given above.

CHAPTER IX

CONCLUSIONS

UNTIL the German Government is able to show sufficient surplus of revenue over expenditure it is difficult to see where the necessary money for Reparations is to come from. Owing to the complete overhauling of the taxation system, with the imposition of additional taxes and with the greater efficiency that have been promised in the matter of assessment and collection, it seems reasonable to suppose that the revenue for 1922 will be considerably greater than that of 1921, but bearing in mind the deficit which last year's accounts reveal, it is evident that reductions on the expenditure side must also be made before the accounts can show the necessary surplus. There is very little doubt that this was in the minds of the statesmen at Cannes when they laid it down as a necessary preliminary to any modification of the

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terms or conditions of payment, that the Government subsidies on bread, coal, post, transport, etc., should come to an end and that it was absolutely incumbent on the German Government to take such steps as should result in the revenue being sufficient to balance the expenditure.

The probable effect of discontinuing the subsidies, whether in whole or in part, is not very easy to foresee. Some seem to think it might result in a more healthy economic condition and in a nearer approximation of the internal value of the mark to the external. Others, on the contrary, seem to think that it would mean little more than a transference from one of the Government's pockets to another. The increase in the price of bread and coal, they say, together with heavier railway charges, would result in an increased cost of living and in demands for increased wages which it would not be very easy to resist. This would again affect the prices of manufactured goods, and the cost of living generally would in consequence be raised to a still higher level. In this way the Government would be called upon to pay very much more in salaries to officials and, hence, though the expenditure would be diminished in one

direction it would be augmented in another. But against this it may be said that freer conditions of industrial life might lead to greater stability and greater prosperity, to the ultimate benefit of the revenue side of the account.

One word of warning, however, it seems necessary to utter. The present economic position of Germany is a very delicate one and sudden and drastic measures may precipitate a crisis. Changes of this kind would need to be made with caution and only after most thorough investigation into the actual situation of the country.

What, it may well be asked, is the German attitude towards Reparations? In the first place, I think it would be quite safe to say that all are agreed that Reparations have to be paid, but there is considerable difference of opinion as to the reason why the obligation has been incurred, as to the amount that should be demanded and as to the times and methods of payment.

Some take the view that they have been beaten and the vanquished party is always called upon to pay ; it is no question of right or wrong, but merely of the fortune of war. They have themselves acted upon this prin-

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ciple in the past. Such people would also argue that the amount claimed should be based mainly, if not entirely, on Germany's power to pay, and that if the terms exacted were such as to render Germany less efficient productively, the demands would defeat their own ends, inasmuch as they would "kill the goose that lays the golden eggs." Others would say that Reparations in this case are not merely the penalty naturally incurred by the losers, but that they also represent compensation for injury sustained; in their view the amount of Reparation should be decided by the amount of damage done, and that anything beyond this it is unreasonable to exact. A third class would argue that Germany was not beaten in a military sense at all, but that the demand for peace from her people at home, which arose from the emptiness of their larders, and in response to the publication of President Wilson's Fourteen Points, precipitated a Revolution which forced the military leaders to surrender. Certain Reparations, they consider, formed part of the terms of surrender, and for the payment of these they are, as a nation, responsible.

But acknowledgment of the necessity to

pay and willingness to make the necessary effort to pay are two very different things, and there is little doubt that this willingness has diminished very considerably since 1919. The reasons generally given for such change of feeling being that additional demands have been made, over and above those originally agreed to, that the spreading of the payments over a period of thirty years has engendered a feeling of hopelessness as to ever being able to get rid of the burden, and last but not least, that a feeling of irritation has been roused by the employment of coloured troops in Germany and the French policy generally with regard to the occupation.

I do not identify myself with these views in any way. I merely state them because I think that we shall understand the whole question better if we know the German attitude of mind. Personally, I feel that the Reparations are a matter of justice. Wrong was done and, though it cannot be fully repaired, it ought to be repaired as far as possible and with regard to the cost of making good the damage done. It cannot be right that the burden of this expenditure should fall on the injured parties. A very common German contention at present is that they

cannot pay the instalments now due, because the State has not the means of doing so and that the State cannot obtain the means without injury to German production in general. This is a question of fact and not of opinion, and needs careful investigation. It is very easy to place one's conception of the needs of industry at a much higher level than circumstances warrant. It is hardly a sufficient argument that if industry were higher taxed to pay for Reparations it would be impossible to have the newest type of equipment and to keep the works at the highest pitch of efficiency. What British manufacturer can do this at the present time? It is surely a matter of degree. Would anyone be so quixotic as to suggest that the payment of Reparations ought to be foregone by the Allies in order that German manufactures might be carried on under better conditions than in any other country? One would be inclined to say that, eminently desirable as it is from the point of view of trade recovery in general that Germany should be industrially efficient, recovery would only be delayed instead of hastened if she were to be conceded a position of such competitive superiority that she could practically dictate what other

countries should produce and in what quantities. It is just as important not to go to this extreme as it would be to retard Germany's economic recovery by demanding of her payments which she could not make without diminishing her power of future production. It is the restoration of the normal state of equilibrium that is wanted.

In the opinion of many, the time has come for a complete reconsideration of the whole Reparations question, and the plea for this may, I think, be supported on the following grounds, without any abandonment of the position originally taken up at Versailles :—

(1) When the Reparation terms were considered, it was impossible to gauge with any accuracy the productive capacity of Germany at the moment, or what it would be likely to be in the years immediately following. Certain estimates were made on both sides, but it would be perfectly true, I think, to say that the calculations of the German experts, as well as those of the Allies, have not been verified by experience. Sufficient allowance was not made for the way plant, machinery, etc., had deteriorated during the years

of war or for the long enduring effects of war strain on mind and body.

(2) Since the terms of the settlement were drawn up and agreed to, the alteration in the external value of the mark has added enormously to the difficulty of the burden of payment. Assuming that the settlement was based on an estimate of Germany's power to pay, is it reasonable to suppose that she can make the same payment in gold marks at a time when they are costing her, perhaps, two or three times as much to obtain ?

(3) It is doubtful whether the psychological factor was sufficiently taken into account. The will to pay has an enormous influence over the power to pay. It would be perfectly just to say that they have agreed to pay and must be made to pay, and, if such payments did not re-act unfavourably on German industry, on the Allies themselves, or on world trade in general, it would be sound economically as well ; but it must not be forgotten that if the will to pay is there, the necessary effort is made with far more spirit and with far more effect ; in other words, the power to produce, which we are so anxious not to destroy, would, as a matter of fact, be stimulated and increased. To recover, then, this

will to pay, which a spirit of hopelessness, a sense of ill-treatment, or a feeling of having had no say in the terms of settlement have undoubtedly engendered, should not be beyond the powers of statesmanship.

(4) Since it is agreed on all hands that Germany's economic position is an extremely critical one and that unwise action might even cause national bankruptcy, it would seem that an entirely new situation has been created, which calls for a thorough re-examination of the matter from this point of view.

The sum of the impressions recorded above really amounts to this, that Germany has all the outward appearances of prosperity, but this prosperity has very little solid foundation. She is rather like a convalescent patient recovering from a very serious illness who has regained something of colour and appetite, but is liable to relapse if care be not taken. The patient has naturally to pay the cost of the operation and a big doctor's bill, which it is agreed shall be paid in instal-

ments, but the amount that can be paid and the interval between the instalments depend on restoration to health and the date of return to full work.

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